

<b>Criterion #7: No Significant Increase in School Housing Costs</b>
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**State Criteria:** The proposed unification will not result in a significant increase in school housing costs, ref. Education Code Section 35753(a)(7).

**Analysis:** NNW analyzed whether or not it is feasible for the unification to not result in a significant increase in school housing costs by examining:

- The existing number and usage of LAUSD-owned facilities.
- The LAUSD facilities located in the Southeast study area that would transfer to a new district.
- LAUSD's current list of Southeast facilities projects, the budgeted funds and estimated project completion dates.
- The projected facilities needs in the Southeast Area.
- The ability of a Southeast Area district to fund facilities projects without significant State participation (outside of a future Statewide school bond).

NNW also made note of the deferred maintenance needs and costs in the Southeast Area. Even though the State annually provides funding for deferred maintenance, there is some uncertainty about the amounts available year to year and the district may have to bear some of the shortfall in funding.

### **LAUSD Facilities**

The District owns 861 facilities (according to a LAUSD report dated 10/15/01). In addition to elementary schools, middle schools and high school sites, the facilities serve a variety of purposes ranging from children's centers to specialized programs. As shown by the following table, a Southeast Area district would serve approximately 9.4% of the students and acquire only 6.4% of the administrative and alternative education sites. Note that eight magnet schools and one administrative facility in the Southeast Area are located on regular school sites and are not stand alone facilities.

The District may not need to replicate all of the functions or a proportionate number of sites, and some of these programs are operated on the comprehensive school sites. But, clearly the few sites that are located in the Southeast Area, and whose ownership would transfer upon unification, would be inadequate. For example, there are no administrative facilities for district level services and few alternative education sites. A Southeast Area district might be hard pressed to find suitable facilities, given the population density in the Southeast Area (an approximate 7 square mile area). Paying for new facilities is another issue, if funds were not available through the division of asset process (see Criterion #3, Division of Property, Funds and Obligations), then the new district would have to utilize bonded indebtedness, state funds or general operating funds.

Description of Facilities Owned by LAUSD (Exc. regular day sites)	# Of Total LAUSD Sites	# Of Southeast Area Sites	Percentage in Southeast Area
Adult Schools	12	2	17%
Continuation Schools	42	2	5%
Learning Centers	5	1	20%
Newcomer Center	1	0	0%
Primary Centers	5	0	0%
Elementary Magnet Schools	10	0	0%
Special Education Centers	18	1	5.6%
Occupational Centers	6	0	0%
Skill Centers	6	0	0%
Opportunity Schools	7	0	0%
ROP Center	1	0	0%
Magnet Schools	21	8*	0%
Science Centers	9	0	0%
Administration and Operations	61	2*	3.2%
Children's Centers	93	3	3.2%
<b>Totals</b>	<b>297</b>	<b>19</b>	<b>6.4%</b>

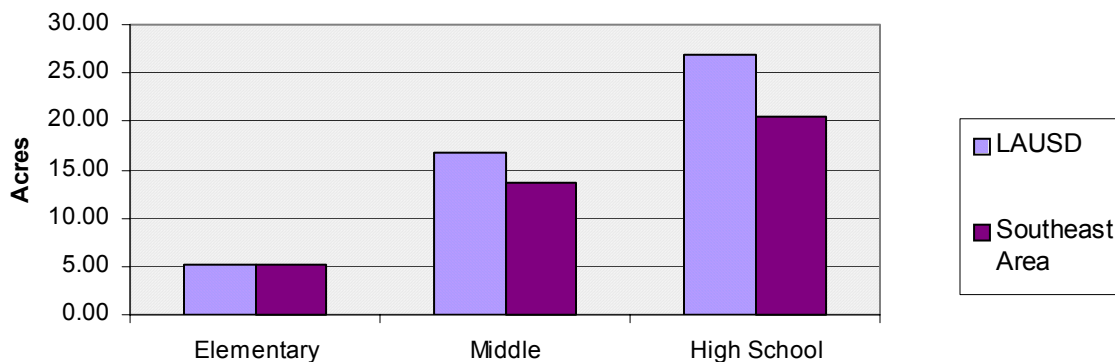
\*There are eight magnet schools and one administrative facility operating in the Southeast Area on regular day campuses but 0% of the stand-alone facilities.

Source: LAUSD

### **District-Owned Facilities in the Southeast Study Area**

Appendix D-3 lists the district-owned facilities in the Southeast Area that would be transferred to the new district if unified. Included on the list are the acreage per site and the projected enrollment per site over the next five years. On average, the acreage per school site in the Southeast Area is smaller than the average for the LAUSD overall. This could affect a Southeast Area district's ability to expand the number of classrooms on existing school sites, leaving building up additional stories as the most practical alternative.

### **Average Acres Per School Site**



Source: LAUSD.

**Currently Budgeted Facilities Projects in  
the Southeast Area of LAUSD**

LAUSD, as of October 10, 2001, has budgeted funds for the following elementary projects in the District J area (i.e. the Southeast Area). Also added to the chart are projects at the middle and high school levels that were included on a May 16, 2001 and September 8, 2001 project summary:

<b>Project Description</b>	<b>Budget Funds</b>	<b>Estimated Completion Date</b>
Corona New Primary Center	\$12.2 Million	2 <sup>nd</sup> Qtr. 2004
Middleton New Primary Center	\$15.1 Million	3 <sup>rd</sup> Qtr. 2004
Stanford New Primary Center	\$11.5 Million	2 <sup>nd</sup> Qtr. 2004
Huntington Park Elementary	\$22.3 Million	1 <sup>st</sup> Qtr. 2004
South Gate Elementary	\$18.2 Million	2 <sup>nd</sup> Qtr. 2004
State Elementary	\$22.8 Million	3 <sup>rd</sup> Qtr. 2004
San Gabriel Elementary Addition	\$1.1 Million	1 <sup>st</sup> Qtr. 2003
Bryson Elementary Addition	\$2.4 Million	3 <sup>rd</sup> Qtr. 2003
Loma Vista Addition	\$1.9 Million	1 <sup>st</sup> Qtr. 2003
State Elementary Addition	\$1.5 Million	4 <sup>th</sup> Qtr. 2003
Heliotrope Elementary Addition	\$2.2 Million	Unspecified
Woodlawn Elementary Addition	\$2.2 Million	2 <sup>nd</sup> Qtr. 2002
Florence Playground	\$1.1 Million	Unspecified
Hughes Playground	\$1.6 Million	Unspecified
Miles Playground	\$2.1 Million	Unspecified
San Miguel Playground	\$3.8 Million	Unspecified
State Playground	\$2.1 Million	Unspecified
Woodlawn Playground	\$1.8 Million	Unspecified
New Middle School	\$41.4 Million	2 <sup>nd</sup> Qtr. 2004
New Learning Center	\$55.9 Million	1 <sup>st</sup> Qtr. 2005
New High School	\$82.4 Million	4 <sup>th</sup> Qtr. 2004
New Continuation Schools	\$5.9 Million	3 <sup>rd</sup> Qtr. 2004
<b>Total</b>	<b>\$311.5 Million</b>	

*Source: LAUSD Sept. and Oct. 2001 project summaries.*

LAUSD has budgeted 22 projects in the Southeast Area out of a total of 107 projects district wide – 20.56% of the total. This percentage exceeds the proportionate number of pupils in the area, 9.4%, which could show both facilities needs in the Southeast Area are high and LAUSD's commitment to funding projects in the area.

There is some confusion about which projects are funded, depending on the date of the report. The October 10, 2001 report, the most current report, includes only elementary projects. Two other reports were delivered to NNW that includes the middle and high school projects. It is assumed all of the projects, identified by LAUSD on the two earlier reports in May and September 2001, are slated for funding.

### **Projected Facilities Needs For A Southeast Area Unified School District**

LAUSD, in the September 6, 2001 Funding Summary, has projected that 13,283 additional seats (including the \$311.5 million funded) are needed in the Southeast Area. Of the total number of seats projected, the report indicates that 8,777 are funded and 4,506 remain unfunded, as shown:

<b>Description</b>	<b>Funded Projects</b>	<b>Funded Seats</b>	<b>Unfunded Projects</b>	<b>Unfunded Seats</b>	<b>Funds Required</b>
High Schools	2	3,546	1	87	\$3.8M
Middle School	1	1,338	0	0	\$0
Elementary Schools	2	1,279	5	3,659	\$56.9M
Primary Centers	2	632	2	760	\$6.1M
Additions	7	1,706	0	0	\$0
Playgrounds	6	N/A	1	N/A	\$0
CSR Additions	2	276	0	0	\$0
<b>Totals</b>	<b>22</b>	<b>8,777</b>	<b>9</b>	<b>4,506</b>	<b>\$66.8M</b>

*Source: LAUSD Sept. 6, 2001 Funding Summary.*

The estimated cost of all unfunded LAUSD projects amounts to \$1.197 billion. District J's portion of the unfunded total is 5.6%. When compared to the proportionate number of pupils in the Southeast Area, 9.4%, the area has less facilities needs that are unfunded over the rest of the district. This indicates either LAUSD has been addressing facilities issues in the area and/or that other districts have greater unfunded needs. For example, District H has an unfunded facilities need of \$385 million and District F has an unfunded facilities need of \$358 million – far exceeding that of the Southeast Area.

LAUSD has also incorporated into its priority formula for new construction the number of years the site has been on year-round education schedules. District J has the highest number of years, 406 (computed as the number of sites on year-round times the number of years on year-round), over the other districts in LAUSD. This formula has helped give District J's facilities needs a priority. However, as pointed out by members of SECEDE, the District's positive response is a direct response to the concerns that facilities in the area have long been neglected. In other words, it is only recently that LAUSD has begun responding to the Southeast's concerns.

According to LAUSD, there are other facilities issues the District is attempting to address in the study area:

- All schools are overcrowded, exceeding density guidelines
- Six District J schools' enrollments are capped and students in excess of the caps are being sent out of the area. The schools are: Bell High, Hughes Elementary, Miles Elementary, South Gate Middle, South Gate High, and Vernon City Elementary.

- Two elementary schools, State and San Antonio, cannot fully participate in Option 1 Class Size Reduction due to facilities constraints.
- One elementary school, Tweedy Elementary, is located in a city park, utilizing temporary portables until a new site can be secured and a school built.
- One school, Park Elementary, must be moved temporarily to clean up the site, which is a former landfill.

Pupil enrollment projections are another important consideration when determining facilities needs in the Southeast Area. LAUSD is projecting no growth in the Southeast Area, and this helps to moderate the facilities concerns. The study area does, however, include Edison Middle School, which resides in District I and is a feeder site to Fremont High. Edison has a pupil population of 2,339 (October 2000 CBEDS) and Fremont High is outside of the study area. This means that a Southeast Area district will have to accommodate the Edison Middle school pupils, upon matriculation to high school, at the remaining three high schools. (Note: the only other option would be to exclude the three District I school sites from the petition area.)

NNW estimated the unhoused secondary enrollment from Edison at 775 per grade level (2,339 divided by three grade levels), or 3,100 for four grades, 9-12. Accommodating enrollment at one of the other three Southeast high school sites is problematic since both Bell and South Gate High Schools are capped in enrollment at current levels. LAUSD estimated the cost on one unfunded seat at the following levels:

<b>LAUSD Districtwide Estimates</b>			
	<b>Unfunded Seats</b>	<b>Funds Required</b>	<b>Est. Cost Per Seat</b>
High Schools	16,428	\$724,039,398	\$44,073
Middle Schools	6,036	\$233,121,082	\$38,622
Elementary Schools	12,083	\$188,019,624	\$15,561
Average Cost Per Seat (NNW Computed)	34,547	\$1,145,180,104	\$33,149

Source: Funding Summary Based on Current Schedule (9/1/01)

Thus, for the 3,100 unhoused secondary pupils, post-unification, the estimated cost for school housing is \$137 million. Also there are approximately 180 pupils on intradistrict enrollment that must be housed post-unification. The estimated cost for these pupils is \$6 million (180 times the average cost per seat, \$33,149).

It is clear that the entire district of LAUSD, including District J, has facilities needs that are unmet. And finding suitable building sites is difficult given the population density; the unpopularity of eminent domain proceedings and the toxic clean up issues (e.g. Park Avenue Elementary (in District J) and Belmont High (outside District J and the failed construction). A Southeast Area district would have to address the facilities needs and would not have the flexibility, absent interdistrict

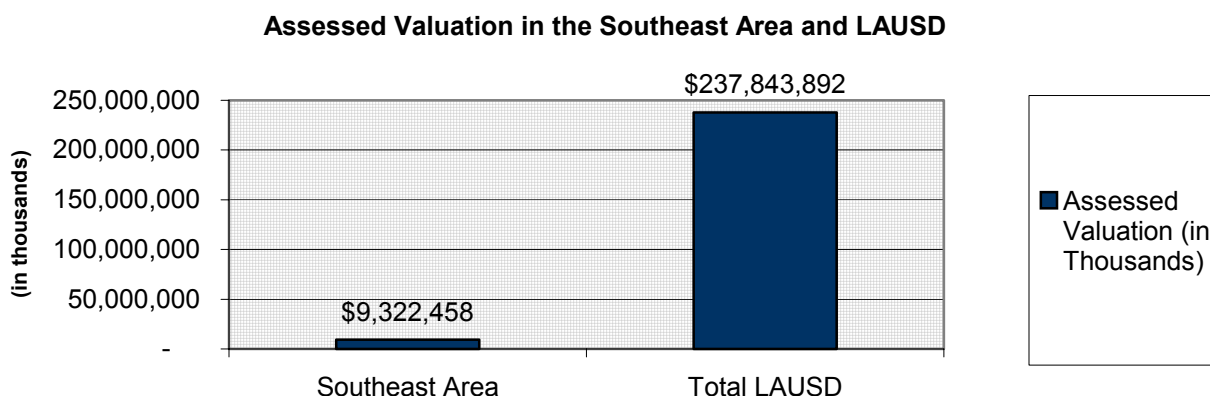
transfer agreements, of sending the students out of the area, as is currently being done at the six capped sites.

### **Facilities Funding**

LAUSD uses a combination of funding mechanisms for its facilities program, including: certificates of participation; state school building loans; developer fees; and, general obligation bonds. The single largest source of funds is from the 1997 Proposition BB general obligation bonds. \$1.006 billion of the \$2.4 billion authorized has been issued by LAUSD as of June 30, 2000 (according to the District's audit report). LAUSD has identified and budgeted the projects to be funded with the entire \$2.4 billion in Proposition BB funds, including those listed in the above tables.

The facilities needs of LAUSD have outpaced the available funds, even with a myriad of funding sources. Until a State of California bond measure is placed on the ballot and approved, all school districts, including LAUSD and a Southeast Area district, will have to look towards local sources (e.g. general obligation bonds and General Fund-backed instruments) to pay for needed projects -- either that, or postpone the projects.

Therefore, it is important to evaluate as part of this study criterion, the potential of a new Southeast Area district to raise funds locally. General obligation bonds are preferable to certificates of participation that typically use General Fund resources to meet the debt service payments, and, thus, encroach onto the educational program. The ability of a Southeast Area school district to issue general obligation bonds in sufficient amounts to address major facilities concerns is crucial and dependent on the assessed valuation of property in the area. The following chart shows the assessed valuation in the Southeast Area as compared to the total of LAUSD. The data for the Southeast Area (comprised of the six cities and omitting the relatively small unincorporated areas in which data was not available) was obtained from the Los Angeles County Auditor-Controller's Office, as of August 2001. The data for LAUSD was obtained from the June 30, 2000 audit report; this report cited the use of year 1999 tax roll information.



Source: LAUSD June 30, 2000 Audit Report and Los Angeles County Auditor-Controller's Office, August 2001

The Southeast Area's assessed valuation, as a percentage of LAUSD in total is 3.92%. Compared to the estimated 9.4% of students in the area – it is clear that the assessed valuation is low as compared to the balance of the district. The assessed valuation per average daily attendance (ADA) is computed in the following:

Area	Assessed Valuation (in Thousands)	Average Daily Attendance (ADA)	Assessed Valuation per ADA
LAUSD	\$237,843,892	732,409	\$324.74
Southeast Area	\$ 9,322,458	64,000 (est.)	\$145.66

Source: LAUSD June 30, 2000 Audit Report and Los Angeles County Auditor-Controller's Office, August 2001

There are upper limits established in the law, Education Code Section 15106, termed bonding capacity. The bonding capacity for a unified school district is 2.5% of assessed valuation. The following table shows the bonding capacity for LAUSD and a Southeast Area district based on the assessed valuation shown above and the outstanding bonded indebtedness as of June 30, 2000.

	LAUSD (In Thousands)	Southeast Area (In Thousands)
Assessed valuation, before reorganization	\$237,843,892	N/A
Assessed valuation in the Southeast Area	(\$9,322,458)	\$9,322,458
<b>Assessed valuation, after reorganization</b>	<b>\$228,521,434</b>	<b>\$9,322,458</b>
Bonding capacity at 2.5%	\$5,713,036	\$233,061
Less: Outstanding bonded Indebtedness*	(\$2,305,920)	(\$94,080)
<b>Available bonding capacity, after reorganization</b>	<b>\$3,407,116</b>	<b>\$138,981</b>

\*Computed as the total authorized by Proposition BB funds, \$2.4 billion, shared proportionate to assessed valuation with the Southeast Area, at 3.92%.

Source: LAUSD June 30, 2000 Audit Report and Los Angeles County Auditor-Controller's Office, August 2001

If outstanding bonded indebtedness were shared proportionate to assessed valuation, a Southeast Area district would have bonding capacity of \$138,981,000. At this level, the unmet facilities needs of \$66.8 million (itemized previously under Projected Facilities Needs for a Southeast Area District) coupled with housing cost for the Edison pupils (and estimated \$137 million) and the 180 intradistrict pupils (an estimated \$6 million) might not be feasibly be met through general obligation bonds, unless combined with state funding through a 50/50 matching program.

And, if the Southeast Area's share of LAUSD's outstanding bonded indebtedness is divided at \$311.5 million (based on the acquisition of property acquired by the new district), then the district would have no excess bonding capacity, as shown:

	<b>LAUSD (In Thousands)</b>	<b>Southeast Area District (In Thousands)</b>
Assessed valuation, before reorganization	\$237,843,892	N/A
Assessed valuation in the Southeast Area	(\$9,322,458)	\$9,322,458
<b>Assessed valuation, after reorganization</b>	<b>\$228,521,434</b>	<b>\$9,322,458</b>
Bonding capacity at 2.5%	\$5,713,036	\$233,061
Less: Outstanding bonded Indebtedness*	(\$2,088,500)	(\$311,500)
<b>Available bonding capacity, after reorganization</b>	<b>\$3,624,536</b>	<b>(\$78,439)</b>

\*Computed as the total authorized by Proposition BB funds, \$2.4 billion, less estimated acquisition debt for projects in the Southeast Area.

Source: LAUSD June 30, 2000 Audit Report and Los Angeles County Auditor-Controller's Office, August 2001

In fact, Education Code Section 35572 would invalidate the petition if the outstanding bonded indebtedness exceeds 5% of assessed valuation -- \$466 million based on current assessed valuation. A Southeast Area district would not be reaching the level to invalidate the petition (acquiring an estimated \$311.5 million in bonded indebtedness upon unification), but this would be a number to watch.

More importantly, there would be no bonding capacity for the unfunded needs, nor to address the issue of high school attendance boundaries for Edison Middle and administrative facilities needs.

Important to the local citizens, is the fact that the tax rate would increase per \$100,000 in assessed valuation. If \$311.5 million in bonded indebtedness were transferred to the new district (based on acquisition debt of the property received), as opposed to the approximately \$94.08 million assessed today (that is, the Southeast Area's proportionate assessed valuation to the assessed valuation of LAUSD), an increase of over 230% in the tax rate would result.

### **Deferred Maintenance Needs**

LAUSD estimated the five-year cost of deferred maintenance for the entire District at \$298,527,613, as of October 5, 2001. District J's share (predominantly the entire Southeast Area) is \$21,609,151 – 7.2% which is less than the 9.4% of pupils that are estimated in the Southeast Area. State funding might feasibly cover a major portion of the Southeast Area's deferred maintenance cost.

### **Summary**

Throughout LAUSD and including the Southeast Area there is a need for additional school housing. LAUSD is only able to fund approximately one-half of the need and has committed approximately \$311.5 million to the Southeast Area. A Southeast Area district would inherit the facilities problems and, it appears, take on more problems. The identified facilities needs in the Southeast Area include:

- \$66.8 million identified as unfunded by LAUSD.
- Finding suitable high school facilities for the Edison Middle School pupils that currently attend outside of the study area, either that or exclude the District I area from the petition. The cost is estimated at \$137 million.
- Finding suitable K-12 facilities for the 180 pupils on interdistrict attendance that might return to the Southeast Area post-unification. The cost is estimated at \$6 million.
- Securing administrative and operational facilities. These facilities might be funded partially through the division of assets process since the Southeast Area stands to lose an equitable share of facilities based on proportionate assessed valuation and/or ADA. Cost estimates for administrative and operational facilities cannot be reasonably determined within the scope of this study but could be material.
- Expansion of alternative education facilities. The Southeast Area has two continuation high schools but, (as shown on the Description of Facilities Owned by LAUSD, page VII-2) lacks occupational, vocational and skill centers; and special activity programs such as the science centers. Housing these types of alternative programs would be at added cost to a Southeast Area district. These facilities might, however, be funded partially through the division of assets process since the Southeast Area stands to lose an equitable share of facilities based on proportionate assessed valuation and/or ADA. Cost estimates for the expansion of alternative education facilities cannot be reasonably determined within the scope of this study but may be significant.

The next page summarizes the housing cost projected versus the projected general obligation bonds that might be issued based on available bonding capacity. As shown, even the maximum estimate of bonding capacity would not be sufficient to cover the quantified housing costs, unless there is state funding participation. And not included are the indeterminable costs of administrative and alternative education facilities.

*(Note: The maximum bonding capacity estimate presumes that the division of debt would be based on proportionate assessed valuation. In reality, the division of debt would be based on the level acquisition debt on properties within the Southeast Area, since this yields a greater amount than proportionate assessed valuation, unless arbitrated otherwise.)*

	<b>Dollars in Thousands</b>
Estimated Housing Costs:	
Unfunded Projects (Page VII-4)	\$66,800
Intradistrict Housing (Page VII-5)	6,000
Secondary Housing (Page VII – 5)	<u>\$137,000</u>
Subtotal	\$209,800
Administrative/Operational Facilities	Indeterminable
Alternative Education Housing	Indeterminable
Projected Facilities Funding From Available Bonding Capacity:	
Maximum Estimate (Page VII-7)	\$138,981
Minimum Estimate (Page VII-8)	(\$ 78,439)

It should be noted that other methods of facilities financing are not generally feasible. For example, there is little to no new development in the area in which to levy developer fees or establish community facilities districts (e.g. a Mello-Roos district). And, the debt service on certificates of participation would require cash outlays from general operating funds, diverting resources from the educational program. As of June 30, 2000, there are authorized but unsold bonds that would be divided with the new district under the division of assets process. However, these funds are already earmarked for projects and not expected to be available at the time of any reorganization.

Based on these factors, it is not likely, under the current circumstances, for a Southeast Area school district to meet its local housing financing needs without hardship financial assistance from the State or creating a hardship on district operations, staff and students. And important to local citizens, the tax rate for bonded indebtedness is expected to increase by over 230%, unless arbitrated otherwise.

**Consultant's Conclusion:** Based on the data provided by the District, the Los Angeles County Auditor-Controller's Office and NNW's analysis, the possible unification of the Southeast Area would be expected to result in a significant increase in school housing costs. This criterion is deemed as not met.